



COMPETITION WATCH



Commonwealth Competition Council • P. O. Box 1475 • Richmond, Virginia 23218 • Vol. 7, No. 2 • June 2002

The Path to Government Transformation

A new report has just been released to provide an in-depth look at how outsourcing has transformed government. The Accenture report is based on interviews with 50 senior government executive with direct experience managing outsourcing initiative.

The report noted that outsourcing in the public sector continues to grow with over \$1 trillion in government performance transferred to private sector by the end of the 1990s. Increasing demand for services from constituents, fiscal pressures, and staffing shortages have forced government to continually do more with less. Government officials continue to outsource to improve services, gain access to new technologies and capital and to cut costs. Furthermore, outsourcing in the United States is expected to double over the next five years.

Outsourcing in Government: The Path to Transformation

Accenture

Full report can be downloaded (after registering) at
<http://www.accenture.com>

Government officials around the world suggested that outsourcing is critical to the importance of achieving their strategic mission. However, they reported that there is room to improve the effectiveness of their outsourcing. They outlined the obstacles they faced to include the workforce or union pressures (as well as internal resistance to change) as the most significant obstacles to overcome.

Results from government outsourcing were mixed.

Systematic research showed an average cost savings of 20 to 40 percent over the lifetime of an outsourcing contract. However, executives considered cost savings objectives only 30 percent of the time. Simply put, some executives aspired to outsource for outcomes beyond simple cost savings. The other 70 percent used cost as part of a comprehensive value equation, taking into account other factors such as improving services and focusing on priority issues. **This best value approach is a policy tool that the Commonwealth Competition Council has promoted since its creation in 1995.**

Executives also reported that outsourcing is particularly complicated in the public sector. Shifting political agenda, lengthy procurement processes, union pressure and changing leadership make outsourcing difficult. Because of political pressure to "do more with less," several executives voiced concerns over designing outsourcings to produce immediate

results--that is before political time runs out. Doing so skews initiatives toward the lower end of the value spectrum, inviting less innovative and less costly outsourcings.

Furthermore, conventional wisdom about outsourcing can limit what executives' attempt. Static concepts line "non-core" and "inherently governmental" frame outsourcing initiatives and limit flexibility. The authors suggest that using these guidelines places the emphasis on doing deals rather than on managing relationships.

Lack of knowledge about how to outsource also severely limits potential benefits. Traditional contracts call for "tightly specified contracts that penalize vendors for failing to meet stipulated service levels." **Again, the Commonwealth Competition Council suggests that contracts be less restrictive and define the end outcome desired, leaving the contractor free and flexible enough to achieve the desired results in the best way possible.**

Another point, promoted by the Commonwealth Competition Council, is that "performance-oriented governments have learned to make outsourcing part of everyday good management." These governments have built in performance measurement, generated good financial data through accrual-based management, established clear goals and objectives by articulating a strategic mission and measures of success and queried their citizens about what it is they want.

The authors call this "business transformation outsourcing."

Finally, several government executives see outsourcing as a policy tool that will drive fundamental changes in the way their organizations work. Governments that employ this technique are not simply trying to wring costs out of "non-core" techniques, but rather have a bold strategic agenda that uses outsourcing to restructure operations and properly align internal and external resources to produce desired outcomes. Following this model, the motivation to outsourcing is not to achieve simple cost savings but rather to achieve more effective government. Outsourcing holds the potential to help governments improve efficiency, effectiveness and flexibility.

Blueprint for transforming government

The authors offer a blueprint for transforming government through outsourcing, through both buying services and transforming the value equation. There are several key components to using outsourcing effectively to transform government. They are:

- Use flexible procurement processes to invite innovative solutions;
- Craft deals with clear output requirements;
- Relentlessly measure performance; and
- Look for a strategic ally, not an outsourcing vendor.

Many of these suggestions parallel policy recommendations that the Commonwealth Competition Council advocate

Critical Success Factors

The authors also provide a valuable framework to help make outsourcing work. The three critical success factors, broadly defined, are:

1. **ongoing leadership**
2. **workforce transition and**
3. **managing through information**

Essentially a leader will have to be selected to champion the cause; unions and employees will have to be included early on while offering choices; and finally, information gathering and sharing will be essential to future outsourcing success.

Further information on the Commonwealth Competition Council's competitive government programs and the innovative "COMPETE" program to assist innovators to develop require cost information can be found at <http://www.egovcompetition.com>

A Competitive Government Approach

The concept of Managed Competition was developed by the city of Phoenix over 20 years ago with the intent that it would force government to compete and open the door to privatization. But because it is not fully understood or supported by either public agencies or private firms, it has not realized its full potential to give the most service for the least cost.

The competitive process developed by Phoenix in 1978 involved garbage-collection contracts. Initial contracts were won by private firms, and for a period of time, on half of the city's solid-waste services were provided by private firms. The city used new methods learned in the competitive process and by

This is an excerpt of an article by Ron Jensen that appeared recently in the **Privatization Watch** published by the Reason Foundation. Ron currently is the President of Ron Jensen & Associates Consultants and is the retired Director of Public Works for the City of Phoenix, Arizona. He is known by many as the "father of Managed Competition."

won back all the contracts previously lost to the private sector. Unfortunately, the process of managed competition is associated with the Phoenix experience by the private sector, who perceives that in winning contracts, government has an advantage.

the late 1980s had

Because of this association, the process of Managed Competition has been opposed by the private sector. They see Managed Competition as anti-privatization. Conversely, those public agencies operating less efficiently than Phoenix fear the unknown. They prefer to maintain the status quo and have failed to implement Management Competition. They see the competitive process as opening the door to privatization.

And so, Managed Competition continues to receive little support from both the public and private sectors. The advantages of not paying taxes or having to make a profit support the perception of a "non-level-playing field." One can understand why a private firm would be concerned about competing with a well-run public agency using good business practices like Phoenix, which has won many national and international awards for excellence. Recognized as a well-run city, it is in fact one of the best-managed cities in the United States. In 1994 it received an international award as a "the best run city in the world." Yet, most public agencies do not fit into the "well-run" category and oppose both Managed Competition and privatization in order to protect the status quo.

Since 1978, the private firms involved in Phoenix's garbage collection have become more competitive as well. A mix of public and private operations currently provides the solid-waste collection services for Phoenix. Each has learned from the other and the process continues to be competitive with the taxpayers being the winner.

The competitive process is intended to yield more services at a lower cost

Private firms exist in a competitive world and most are focused on cost in order to survive. Government agencies, on the other hand, tend to be monopolistic and are reluctant to adopt good business practices. They tend to be controlled by old civil service rules, bureaucratic regulations and out-of-date budgeting practices. In many cases, public agencies are protected from the competitive process by those with an anti-privatization bias. Privatization is perceived as a "dirty word" and it soon becomes a political issue.

There are, however, public agencies that have not addressed or taken a position on the issue of public-private

competition. Elected officials change on regular intervals and younger managers move into top-level management positions. For those currently in decision-making positions who have not addressed the competition issue, the opportunity is there.

It would seem to me, says Jensen, that it is time for the private sector to take the initiative and support Managed Competition. Those in government who oppose privatization as a takeover with job loss and a threat to management control would be hard pressed to oppose public-private competition. Why not find out who can provide the highest level of service at the least possible cost? After all, it's the American way! Rather than promoting pure privatization, the private sector can "get a foot in the door" through the promotion of Managed Competition.

A marketing program could promote a comparison of public and private costs through the competitive bid process. Savings to the taxpayers can be pointed out as a result of the process regardless of who wins the bid. The bid process will also help provide opportunities for the use of new technologies and innovations.

The opportunity exists for the private sector to take the lead in promoting Managed Competition. Such an effort will gain credibility and obtain a foothold in the political process. A marketing strategy could play down the takeover approach and promote the issue of opening the door for competition, address all concerns by public agencies, and establish a step-by-step process.

The theme of the new process could be
Government Efficiency through Competition

We are in a new era and the challenge should be taken up by government. Managed Competition should be an excellent tool in support of privatization.

The Commonwealth Competition Council web site at <http://www.egovcompetition> provides a guidebook of frequently asked questions and provides answers government managers can use in developing their competitive government programs. The site also provides a detailed process and guidance for the innovative government employee's use.

Commercial Activities Panel Issues Final Report on A-76 Reform

The federal Commercial Activities Panel released its final report on April 30, 2002. The panel recommended replacing the existing A-76 process with one that follows the guidance in the Federal Acquisition Regulation Part 15. This will require the government to compete in a best value competition process with all competitors. The process is fairly flexible in allowing competitions to mix low cost and quality under a best value outcomes structure. It also allows a performance based, best value competitions in a way the old A-76 process does not, giving federal agencies and the Office of Management and Budget a basis for using performance criteria to drive competitions and outsourcing decisions. This approach is widely accepted as best practice in competitions among state, local and overseas governments.

A-76
process recommended
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in the Federal
Acquisition Regulation
Part 15

Competition Council "Snap Shots "

The Speaker of the House of Delegates has appointed the Honorable Thomas D. Rust of Herndon to the Commonwealth Competition Council. Delegate Rust represents the 86th District which includes parts of the Counties of Fairfax and Loudoun. Legislative terms on the Council are coincident with their House or Senate terms. Delegate Rust is a civil engineer and has been elected to serve on the Herndon Town Council. He most recently completed his second term as Mayor of the Town of Herndon, the third largest town in Virginia. Delegate Rust who succeeds the Honorable V. Earl Dickinson of Louisa who recently retired from the House of Delegates. The Commonwealth Competition Council welcomes Delegate Rust to its 15-person advisory council.

**NEWEST MEMBER
OF THE COMMONWEALTH COMPETITION
COUNCIL
DELEGATE THOMAS D. RUST**

Secretary of Administration Sandra Bowen attended the April 30, 2002, meeting of the Competition Council. Secretary Bowen addressed the Council members and expressed her support for the Council and its work to improve government effectiveness.

The Commonwealth Competition Council web portal provides 24-hour support, 7 days a week, to individuals interested in entrepreneurial government and continuous improvement in their organizations. An e-Gov entrepreneur's toolkit is available to answer your questions and to provide assistance.

<http://www.egovcompetition.com>